

**REPORT OF THE AUDIT OF THE
FORMER BUTLER COUNTY
SHERIFF'S SETTLEMENT - 2006 TAXES**

**For The Period
April 29, 2006 Through December 31, 2006**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
FORMER BUTLER COUNTY
SHERIFF'S SETTLEMENT - 2006 TAXES**

**For The Period
April 29, 2006 Through December 31, 2006**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2006 Taxes for the former Butler County Sheriff for the period April 29, 2006 through December 31, 2006. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The former Sheriff collected taxes of \$1,953,313 for the districts for 2006 taxes, retaining commissions of \$81,099 to operate the Sheriff's office. The former Sheriff distributed taxes of \$1,871,953 to the districts for 2006 taxes. Taxes of \$21 are due to the districts from the former Sheriff.

Report Comments:

- The Former Sheriff Should Have Deposited Tax Collections Intact Daily And Distributed Tax Collections By The Tenth Of The Next Month
- The Former Sheriff Should Have Distributed Interest Earned On Tax Collections Monthly
- The Former Sheriff's Office Lacked Adequate Segregation Of Duties

Deposits:

The former Sheriff's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robert M. Burnside, Secretary
Finance and Administration Cabinet
Honorable David Fields, Butler County Judge/Executive
Honorable Kenneth Morris, Former Butler County Sheriff
Honorable Joe Gaddie, Butler County Sheriff
Members of the Butler County Fiscal Court

Independent Auditor's Report

We have audited the former Butler County Sheriff's Settlement - 2006 Taxes for the period April 29, 2006 through December 31, 2006. This tax settlement is the responsibility of the former Butler County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the former Butler County Sheriff's taxes charged, credited, and paid for the period April 29, 2006 through December 31, 2006, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated August 8, 2007 on our consideration of the former Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robert M. Burnside, Secretary

Finance and Administration Cabinet

Honorable David Fields, Butler County Judge/Executive

Honorable Kenneth Morris, Former Butler County Sheriff

Honorable Joe Gaddie, Butler County Sheriff

Members of the Butler County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Former Sheriff Should Have Deposited Tax Collections Intact Daily And Distributed Tax Collections By The Tenth Of The Next Month
- The Former Sheriff Should Have Distributed Interest Earned On Tax Collections Monthly
- The Former Sheriff's Office Lacked Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen

Auditor of Public Accounts

August 8, 2007

BUTLER COUNTY
KENNETH MORRIS, FORMER SHERIFF
SHERIFF'S SETTLEMENT - 2006 TAXES

For The Period April 29, 2006 Through December 31, 2006

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 251,122	\$ 345,507	\$ 1,127,058	\$ 382,662
Tangible Personal Property	16,057	32,602	72,004	115,685
Fire Protection	2,487			
Franchise Taxes	12,681	22,703	55,755	
Additional Billings	625	1,049	2,802	1,500
Adjusted to Sheriff's Receipt	117	199	721	2,511
Gross Chargeable to Sheriff	<u>283,089</u>	<u>402,060</u>	<u>1,258,340</u>	<u>502,358</u>
<u>Credits</u>				
Exonerations	2,836	4,000	12,701	7,312
Discounts	3,478	4,917	15,454	6,864
Transferred To New Sheriff:				
Official Receipt For Unpaid Tax Bills	43,685	60,421	194,902	71,271
Franchise	8,634	17,321	38,738	
Total Credits	<u>58,633</u>	<u>86,659</u>	<u>261,795</u>	<u>85,447</u>
Taxes Collected	224,456	315,401	996,545	416,911
Less: Commissions *	<u>9,827</u>	<u>13,404</u>	<u>39,862</u>	<u>18,006</u>
Taxes Due	214,629	301,997	956,683	398,905
Taxes Paid	214,599	301,939	956,557	398,858
Refunds (Prior Year)	<u>30</u>	<u>37</u>	<u>126</u>	<u>47</u>
Due Districts		**		
as of Completion of Fieldwork	<u>\$ 0</u>	<u>\$ 21</u>	<u>\$ 0</u>	<u>\$ 0</u>
* Commissions:				
10% on \$ 10,000				
4.25% on \$ 946,768				
4% on \$ 996,545				
** Special Taxing Districts:				
Health District	\$ 5			
Extension District	<u>16</u>			
Due Districts	<u>\$ 21</u>			

The accompanying notes are an integral part of this financial statement.

BUTLER COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2006

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The former Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

BUTLER COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2006
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The former Sheriff did not have a deposit policy for custodial credit risk but rather followed the requirements of KRS 41.240(4). As of December 31, 2006, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2006. Property taxes were billed to finance governmental services for the year ended June 30, 2007. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 17, 2006 through December 31, 2006.

Note 4. Interest Income

The former Butler County Sheriff earned \$906 as interest income on 2006 taxes. On August 8, 2007, the former Sheriff paid \$234 in interest to the school district and \$328 in interest to the fee account.

Note 5. Unrefundable Duplicate Payments And Unexplained Receipts Should Be Escrowed

The former Sheriff should submit any unrefundable duplicate payments and unexplained receipts to the current Sheriff for deposit in an interest-bearing account. According to KRS 393.110, the Sheriff should properly report annually to the Treasury Department any unclaimed moneys. After three years, if the funds have not been claimed, the funds should be submitted to the Kentucky State Treasurer. For the 2006 taxes, the former Sheriff had \$3,104 in unrefundable duplicate payments and unexplained receipts. Therefore, the Sheriff should send a written report to the Treasury Department.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable David Fields, Butler County Judge/Executive
Honorable Kenneth Morris, Former Butler County Sheriff
Honorable Joe Gaddie, Butler County Sheriff
Members of the Butler County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the former Butler County Sheriff's Settlement - 2006 Taxes for the period April 29, 2006 through December 31, 2006, and have issued our report thereon dated August 8, 2007. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Butler County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the former Butler County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the former Butler County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting which is a basis of accounting other than generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described in the accompanying comments and recommendations to be significant deficiencies in internal control over financial reporting.

- The Former Sheriff's Office Lacked Segregation Of Duties



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the former Butler County Sheriff's Settlement - 2006 Taxes for the period April 29, 2006 through December 31, 2006 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Former Sheriff Should Have Deposited Tax Collections Intact Daily And Distributed Tax Collections By The Tenth Of The Next Month
- The Former Sheriff Should Have Distributed Interest Earned On Tax Collections Monthly

This report is intended solely for the information and use of management, the Butler County Fiscal Court, and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

August 8, 2007

COMMENTS AND RECOMMENDATIONS

BUTLER COUNTY
KENNETH MORRIS, FORMER SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Period April 29, 2006 Through December 31, 2006

STATE LAWS AND REGULATIONS:

The Former Sheriff Should Have Deposited Tax Collections Intact Daily And Distributed Tax Collections By The Tenth Of The Next Month

The former Sheriff did not deposit all tax collections when received or report and distribute tax collections by the tenth of the next month after receipt. The State Local Finance Officer, under the authority of KRS 68.210, established minimum accounting requirements which include depositing receipts intact on a daily basis. In addition, KRS 134.300 requires the Sheriff to report and distribute to the taxing districts taxes collected during the preceding month. The former Sheriff deposited, reported, and distributed all regular tax collections as required. However, collections in September 2006 for franchise tax bills were not deposited, reported, and distributed until November 2006. These collections should have been deposited as received and reported and distributed by the tenth of the next month.

Former Sheriff's Response: No Response.

The Former Sheriff Should Have Distributed Interest Earned On Tax Collections Monthly

KRS 134.140(3)(b) requires the former Sheriff to pay monthly "that part of his investment earnings for the month which is attributable to the investment of school taxes." The former Sheriff should distribute the investment earnings at the same time as the monthly tax collections. KRS 134.140(3)(d) requires the remaining monthly interest to be transferred to the Sheriff's fee account. During the 2006 tax collections, the former Sheriff earned interest of \$906 on his tax account. This money was not distributed monthly to the school district and the fee account. On August 8, 2007, the former Sheriff paid \$234 in interest to the school district and \$328 in interest to the fee account.

Former Sheriff's Response: No Response.

INTERNAL CONTROL – SIGNIFICANT DEFICIENCY AND MATERIAL WEAKNESS:

The Former Sheriff's Office Lacked Adequate Segregation Of Duties

During our review of internal controls, we noted the following control deficiencies pursuant to professional auditing standards:

- The former Sheriff's bookkeeper collected money, prepared deposits, and prepared daily collection printout. The former Sheriff did not document oversight of any of these activities.
- The former Sheriff's bookkeeper prepared monthly reports, prepared checks, and delivered checks to taxing districts. The former Sheriff did not document oversight of any of these activities.
- Franchise collections for September 2006 of \$10,498 were not deposited, reported and distributed to taxing districts until November 2006.

BUTLER COUNTY
KENNETH MORRIS, FORMER SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period April 29, 2006 Through December 31, 2006
(Continued)

INTERNAL CONTROL – SIGNIFICANT DEFICIENCY AND MATERIAL WEAKNESS:
(CONTINUED)

The Former Sheriff's Office Lacked Adequate Segregation Of Duties (Continued)

No compensating controls were noted to offset these control deficiencies. Therefore, the control deficiencies as described above constitute a significant deficiency and material weakness. The former Sheriff should have implemented the compensating controls noted below to offset this internal control weakness.

- The former Sheriff should have periodically compared a daily bank deposit to the daily checkout sheet and then compared the daily checkout sheet to the receipts ledger. Any differences should have been reconciled. He could have documented this by initialing the bank deposit, daily checkout sheet, and receipts ledger.
- The former Sheriff should have required the monthly tax distribution reports be reconciled monthly to receipts and disbursements ledgers.
- The former Sheriff should have periodically compared the monthly tax distribution reports to receipts ledger for accuracy. Any differences should have been reconciled. The former Sheriff should have documented this by initialing the monthly tax distribution report.
- The former Sheriff should have periodically compared payments due to taxing districts to cancelled checks. The former Sheriff should have documented this by initialing the monthly tax distribution reports, noting that payment amounts were agreed to cancelled checks.
- The former Sheriff should have periodically compared the bank reconciliation to the balance in the checkbook. Any differences should have been reconciled. The former Sheriff could have documented this by initialing the bank reconciliation and the balance in the checkbook.
- The former Sheriff should have required all franchise tax collections to be deposited intact daily.
- The former Sheriff should have required all franchise tax collections to be reported and distributed to the taxing districts by the tenth of the month following collection.

Former Sheriff's Response: No Response.

